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FM AMEMBASSY KABUL
TO RUEHC/SECSTATE WASHDC PRIORITY 1714
INFO RUCNAFG/AFGHANISTAN COLLECTIVE
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC

UNCLAS SECTION 01 OF 02 KABUL 003000

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SRAP FOR MARY BETH GOODMAN AND BOB DEUTSCH
DEPT PASS USTR DEANGELIS

E.O. 12958: N/A
TAGS: [ETRD](#) [PREL](#) [AF](#) [PK](#)
SUBJECT: AF-PAK Transit Trade Talks Hit Snag

REF: (A) KABUL 2943
(B) KABUL 2825

¶1. (SBU) Summary: Foreign Affairs Minister (FM) Spanta recently rejected the Terms of Reference (TOR) for the re-export/smuggling study that both the Afghan and Pakistan governments agreed upon in principle during the third round of APTTA talks, according to Commerce Deputy Minister Farhadi. This rejection is an APTTA Qdeal-breakerQ for the Pakistan side, which has refused to participate in the upcoming fourth round of talks, slated for October 10-12, until the Afghan Foreign Ministry reverses its decision, according to Farhadi. Foreign Minister Spanta is currently in New York participating in the United Nations General Assembly (UNGA) until October 5. Embassy recommends senior U.S. officials meet with Spanta on the fringes of the UNGA to seek his agreement that the TOR go ahead in order to keep the APTTA on track for completion by the end of 2009. (Comment: Spanta and Afghan Commerce Minister Shahrani have had differences on other aspects of this negotiation, including over the importance of the Wagah border crossing to India. End Comment.) End summary.

¶2. (SBU) Commerce Deputy Minister (and Chief APTTA negotiator) Adib Farhadi told EconCouns September 28 that FM Spanta rejected the TOR for the re-export/smuggling study in early September and had so notified the Pakistan side at that time via the Afghan embassy in Islamabad. The Pakistan side later notified the Afghan Commerce Ministry which has subsequently and unsuccessfully tried to discuss the issue with FM Spanta and to raise it in the Afghan cabinet. To date, the issue remains unresolved.

Re-export/Smuggling Study Key to APTTA

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¶3. (SBU) Deputy Minister Farhadi says the Pakistan side considers FM SpantaQs rejection of the TOR (funded by USAID) a Qdeal breakerQ for the APTTA talks. As previously reported in ref (A), the Pakistan side had counted on Afghan concurrence that the key recommendations of the re-export study would be implemented upon the studyQs completion in the next 6-12 months and such an understanding would be incorporated into the APTTA. The Afghan side, lead by the Commerce Ministry, had accepted this position in principle, making it clear they must, in return, receive unimpeded access to PakistanQs Wagah border crossing with India. As a result of the FMQs recent rejection, the Pakistan side has refused to participate in the upcoming fourth round in Kabul, now slated for October 10-12, until the FM has reversed his decision.

Spanta Objects...
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¶4. (SBU) Foreign Minister Spanta reportedly has two objections to the re-export/smuggling study, according to Farhadi:

--the study is unnecessary to advance Afghanistan's initiative to improve transit trade access through Pakistan. Since Afghanistan currently places no barriers on Pakistan's lucrative access to Central Asia, Pakistan should not seek to impose this additional condition in the APTTA;

--and the study appears to be a U.S.-driven and U.S.-led initiative that involves U.S. policy objectives related to its anti-corruption agenda. As such, the study is not germane to the APTTA.

...But Spanta is Missing Key Points

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¶15. (SBU) Foreign Minister Spanta's trade policy staff do not have the influence or clout to advise him that his reported views on the re-export study do not reflect key realities, according to Farhadi. Deputy Minister Farhadi noted that Spanta's views appear to be shaped by an outside economic advisor and/or the Presidential Palace. He added that the re-export/smuggling study addresses the issue of Afghanistan's tariff-free imports (coming in largely from Karachi and re-exported or smuggled into Pakistan, to avoid duties) but also addresses the delays of those imports initially transiting through Pakistan and their relatively high transit costs. He argued that Spanta must realize that it is just as important that the study address the delays of Afghan imports transiting Pakistan as it is for Pakistan to resolve their perceived problems of re-exports. In this sense, the re-export study offers both sides a potential win-win, if the study's recommendations are binding on the APTTA and implemented.

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¶16. (SBU) In addition, Spanta reportedly argues that this initiative is U.S.-led and U.S.-driven to advance anti-smuggling goals. On the contrary, Farhadi told us the Pakistani and Afghan negotiators made clear in the third round that the TOR and subsequent study was their initiative -- and noted that launching the study would mark a major step toward a final APTTA agreement. The U.S. role was, and is, solely confined to funding the TOR and re-export study as a contribution to advancing this important trade initiative for both sides. In addition, he stressed the U.S. government has had no direct role in shaping or approving the TOR or in approving the advisors to carry it out. Finally, he noted that the Afghan and Pakistan sides plan to select the consultants to carry out the actual re-export study, without any U.S. government concurrence.

¶17. (SBU) Comment and Recommendation: Foreign Minister Spanta is in New York participating in the United Nations General Assembly until October 5. Embassy recommends that senior U.S. officials meet with Spanta on the fringes of the UNGA to seek his understanding that the TOR go ahead as agreed upon in order to keep the APTTA on track for completion by the end of 2009. We understand Spanta may believe the re-export study is a U.S. policy tool. However, he should be reminded that the U.S. played only a facilitating, supportive role. Following a readout on U.S. meetings with FM Spanta on this issue, we will pursue additional meetings here to ensure that both the Afghan and Pakistan sides can keep the APTTA talks on track for October ¶10. (We note, however, that Foreign Minister Spanta has told us previously that he disagrees with this Commerce Ministry over another key issue: the Priorities which that Ministry has put on reaching a solution to access for Afghan goods to India via the Wagah border crossing. Spanta has argued to senior U.S. officials that the Wagah issue should not block an APTTA accord.) If the issue remains unresolved by that date, the next round of talks would likely occur on or around November 10. However, such a postponement could delay the APTTA process into ¶2010. End comment.

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